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March 18, 1977

Letter Report 305

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee, we have examined certain fiscal operations of the State Department of Education and the Chancellor's Office of the California Community Colleges. The purpose of this examination was to answer specific questions of the Joint Committee on Fairs Allocation and Classification. This examination was conducted under authority vested in the Auditor General by Section 10527 of the Government Code.

Background

On December 2, 1976, at the Joint Committee on Fairs Allocation and Classification meeting, the Auditor General presented testimony on his Report No. 271, "Administration of Federal Vocational Education Act Funds by the State of California." The Auditor General reported that the Department of Education, without authorization, was diverting \$3 million annually from local assistance to augment state operations. Members of the Committee raised questions concerning (1) the payment for a mobile van to distribute instructional materials, and (2) the need for and adequacy of audits performed by the Certified Public Accounting firm of Coopers & Lybrand. Additionally, committee members asked the Auditor General to recommend legislation concerning unauthorized bank accounts maintained by the Department of Education and the Chancellor's Office. The State Department of Finance has reviewed these accounts and under existing statutes has recommended procedures to control them. We feel, based on this review, there is no need for additional legislation.

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Authorization of Mobile Van Purchase

The State Department of Education, Vocational Education Support Unit, by circumventing authorized budget procedures, funded the acquisition and operations of a mobile van through the Yolo County Office of Education. The mobile van was used to distribute business education instructional materials statewide. Under the direction of the Vocational Education Support Unit, the Yolo County Office of Education was spuriously awarded grants of \$32,100 for 1973-74, \$56,253 for 1974-75 and \$52,024 for 1975-76 for this project. The Chief of Program Operations Unit signed the letter which notified the Yolo County Office of Education that they had been awarded these funds. Accompanying the award notification for 1973-74 was a budget prepared by the Chief of the Bureau of Business Education. This budget indicated that the Yolo County Office of Education was to purchase a mobile van for \$15,075.

Contract Administrative Cost of
Audits Performed by Coopers & Lybrand

The State Department of Education (SDE), Vocational Education Support Unit, awarded a \$41,591 grant to the Stanislaus County Office of Education for 1975-76. The Stanislaus County Office of Education was to provide necessary support service to the Vocational Education Support Unit and to provide payment from the grant funds on behalf of SDE to Coopers & Lybrand, Certified Public Accountants. The grant notification states that the Stanislaus County Office of Education was to receive \$3,081 for simply making payments to the contractor (Coopers & Lybrand) upon receipt of an invoice approved for payment by SDE's Vocational Education Operations Unit. If the Vocational Education Support Unit had paid the contractor directly rather than going through the Stanislaus County Office of Education, the additional administrative expenditure of \$3,081 would have been avoided. The Fiscal Office of SDE could have paid these expenditures without incurring additional administrative cost.

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Adequacy of Audits

The Vocational Education Support Unit selected Coopers & Lybrand to conduct audits of vocational education expenditure claims filed by certain school districts for fiscal year 1973-74. Previously, Coopers & Lybrand had provided services for the:

- Audits of vocational education expenditure claims filed by six districts for fiscal year 1970-71.
- Review of the California grants management system for administering Vocational Education Act funds.
- Review of the financial implications of regional occupation programs and centers.
- Review of the financial implications of contracts for vocational instruction by public entities with private schools.

Education Code Section 17206 requires that the Governing Board provide an annual audit of each district either by providing for an audit by a licensee of the State Board of Accountancy or by making arrangements to provide such an audit with the County Superintendent of Schools having jurisdiction over the district. The Department of Finance with the cooperation of the Department of Education prescribes the statements and other information to be included in the audit report.

The annual audit guidelines prescribed for federally funded programs state that the auditor shall make:

A positive statement that claims filed for reimbursement under the programs listed below and the supporting records were examined or tested to the extent considered necessary and that no exceptions were found; or, if exceptions were found details adequate to explain their nature, effect, and the action taken at the local level to correct the exceptions.

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The annual audit guidelines require that a positive statement be made on the following federal programs:

- Elementary and Secondary Education Act, Titles I, II and III
- Education of the Handicapped Act, Part B
- Adult Education Act of 1966
- Vocational Education Amendments of 1968
- Comprehensive Employment and Training Act of 1973
- National Defense Education Act of 1958, Title III
- Child Nutrition Act of 1966
- National School Lunch Act
- Higher Education Act of 1965, Title I.

Officials of the Vocational Education Support Unit and the Chancellor's Office state that they do not use the annual district audits to administer the State Vocational Education Program. They maintain that the annual district audits do not provide information needed for state management, and are therefore inadequate. To compensate for these inadequacies Coopers & Lybrand was retained to audit the vocational education expenditure claim.

The audits conducted by Coopers & Lybrand duplicate in part the annual district audits. The Coopers & Lybrand audits deal only with expenditures claimed against the Vocational Education Program, whereas the district audits review the expenditures for all federally funded programs (including Vocational Education) in which the district participates. A review of the 11 annual district audit reports reveals that the previous auditors did not take exception to any expenditures claimed against the Federal Vocational Education Act funds.

However, the Coopers & Lybrand audit of the same districts' expenditure claims indicates that \$240,909 of the \$2.9 million in federal vocational education funds should be disallowed for various reasons.

The Department of Education and the Chancellor's Office expect to have the districts refund approximately \$133,000 of the \$240,909 questioned in the audits. As of January 1977, no cost recovery has been made.

It appears that the audits conducted by Coopers & Lybrand on the vocational education expenditures meet the requirements established by the Departments of Finance and Education, but raise concern about the adequacy of district annual audits conducted by licensees of the State Board of Accountancy.

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Hours and Fees Charged by Coopers & Lybrand

We reviewed the audit working papers and internal billing reports of Coopers & Lybrand for the audit conducted in 11 school districts. The audit working papers indicate that substantial audit tests were performed as a basis for the opinion expressed by Coopers & Lybrand on the examination of the claims for funds from the Vocational Education Act. The billing reports indicate that an average of 144 hours were spent on each district and resulted in a \$20 charge for each hour spent.

We conclude that the work performed by Coopers & Lybrand was proper to meet the state audit requirement and that the hours spent and fees charged were reasonable.

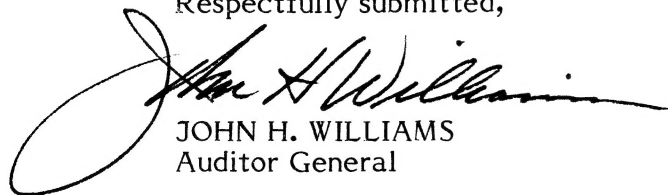
Principal in Charge of the Coopers & Lybrand Audit

The principal auditor (recently retired) who was in charge of the 1973-74 Vocational Education Audits conducted by Coopers & Lybrand has been a member of the Qualifications Committee of the State Board of Accountancy since 1970. This Committee reviews CPA candidates' qualifications and makes recommendations to the Board on licensing candidates.

Conclusion

The audit work performed by Coopers & Lybrand on the vocational education expenditure claims was adequate to meet the audit requirements of the State. Due to the inadequacy of the districts' annual audits performed by other auditors, the Department of Education and the Chancellor's Office have found it necessary to spend federal funds to duplicate the audit effort in order to meet the state audit requirement.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

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